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SUBJECT: U/S LEVEY BILATS ADDRESS ARAB BANK AND AML LAW

REF: 02 AMMAN 6852

Classified By: Charge d'Affaires David Hale for reasons 1.4 (b) and (d)

1. (C) SUMMARY: In bilateral meetings held in Amman February 16, a multi-agency delegation led by Under Secretary of Treasury for the Office of Terrorism and Financial Intelligence Stuart Levey heard GOJ and Arab Bank concerns about the impending regulatory action against Arab Bank. In response Levey acknowledged the important role played by Arab bank in Jordan and the region, but communicated that the Bank had real systemic problems - at least in its New York City branch - that required resolution. While unable to intervene directly in the pending action, Levey underscored that Arab Bank's following through on its stated intent to reform its worldwide anti-money laundering compliance would be the best course for the Bank in the long term and also for USG-GOJ relations. In his meetings with GOJ officials, he also noted the importance of swift passage of the pending draft anti-money laundering legislation. END SUMMARY.

2. (U) U/S Levey's delegation, which also included Office of Terrorism and Financial Crime Director Daniel Glaser and Financial Crimes Enforcement Network (FinCEN) Director William Fox, met on February 16 with Central Bank of Jordan (CBJ) Governor Umayya Tougan, Finance Minister Mohammed Abu Hammour, and Minister of Royal Court Samir Rifai in successive meetings. He also met on that day with Arab Bank CEO Abdulhameed Shoman, Arab Bank Director of Banking Shukri Bishara, and several other top officials from the bank's operations, compliance, and legal departments. On February 17, the delegation met with Minister of Justice Salah al-Bashir, Foreign Minister Hani al-Mulqi, and Prime Minister Faisal al-Fayez. Charge joined all meetings.

CENTRAL BANK OF JORDAN

3. (S) Governor Tougan, accompanied by CBJ Deputy Governors Mohammed Said Shahin and Faris Sharaf, laid out the current CBJ position on the Arab Bank case. According to the CBJ, the OCC had notified it in late January of problems at the New York City branch of the Arab Bank. While the CBJ appreciated the OCC's courtesy in informing the CBJ of these problems; this was the first that the CBJ had heard of a problem after nine years of receiving "top marks" from the OCC. Tougan said that the apparent lack of due process was particularly disturbing to the CBJ. Deputy Governor Sharaf would travel to DC, he said, with senior Arab Bank staff to discuss the case in more detail and to find out what the particular alleged problems had been in order to ensure that such problems were not being duplicated elsewhere in the Arab Bank's network, over which the CBJ has supervisory authority. The CBJ officials once again noted that the bank is the base of the largest financial network in the Arab world, as well as being by far the most important bank in Jordan, and said that as a healthy bank, Arab Bank would be an irreplaceable partner in anti-money laundering and counter-terrorist finance (AML/CFT) cooperation - after all, no one knew the clientele better. Nonetheless, if the OCC felt the need to take any regulatory action, the CBJ would support it as long as Arab Bank received due process.

4. (S/NF) Levey responded by praising Jordan for its counter-terrorist cooperation with the U.S., but noted his concern over what seemed to be "significant systemic problems" in the AML/CFT procedures in place in Arab Bank branches. He drew special attention to the West Bank Arab Bank branches, whose director had previously admitted to the delegation that none of the branches for which he was responsible had ever filed a suspicious activity report on a transaction. Tougan responded by noting the obstacles to the filing of such reports - the lack of any regulators under the Palestinian Authority and the difficulties for the CBJ regulators to gain entrance to the West Bank since the beginning of the intifada. Tougan also complained of unhelpful behavior on the part of the Palestinian Authority - Palestinian Monetary Authority Governor Amin Haddad, he insinuated, had not been fully forthcoming when he had earlier told the delegation that the CBJ regulators were free to inspect West Bank Arab Bank branches. Levey, Fox, and Glaser reiterated that Arab Bank was not being singled out, drawing attention to the recent Riggs Bank and AmSouth cases.

Tougan revealed that Arab Bank had earlier in the week requested a statement of support from the CBJ, but that the CBJ had refused to give such a statement (significant, given the long history of CBJ statements of support subsequent to each of the three civil suits that have been filed against the bank over the past year). He also revealed that Arab Bank was considering firing the manager of its New York City branch, a step which the CBJ had advised the bank's management not to take at this time.

15. (C) On other areas of regulatory activity, Tougan noted that the passing of the draft AML law was at this point out the CBJ's hands, but said that the CBJ is moving forward even in the absence of an AML law to improve its AML/CFT infrastructure. Sharaf stated that the FIU in Jordan, which under the AML law would have expansive powers, would be under the authority of the CBJ and that the CBJ was already prospectively looking for sponsorship from Lebanon or Cyprus for membership in the Egmont Group for its FIU. In the absence of the bill, a proto-FIU had already been set up. Fox said that FinCEN is ready to offer support, and Sharaf responded that he would take FinCEN up on this offer. Tougan addressed concerns about cash flowing in from Iraq, saying that CBJ guidelines required that any bank receiving deposits of over \$10,000 from previously unknown customers was required to report such deposits and that the CBJ had just finished drafting new guidelines on requiring reporting of cash over \$10,000 when it crossed a Jordanian border, though the Jordan Tourism Board would present the guidelines in order not to raise fears that the measure was a sign of currency weakness.

ARAB BANK

16. (S/NF) Shoman and Bishara, in their meetings with U/S Levey, forcefully expressed arguments by now familiar to post. Bishara noted once again the clean record that Arab Bank's New York City branch had enjoyed prior to January, noting that had the OCC given Arab Bank's head office any notice at all of the problems with the branch's AML/CFT compliance, "we would have descended upon (the branch) with the wrath of God." He added that he felt that the tone of the OCC's "overreaction" might be driven in part by what he felt was its previous failure to adequately supervise the bank. Bishara complained that Arab Bank was not being given adequate time to respond to the OCC's charges and had been coerced into signing an interim consent agreement "that paralyzes our branches." He reiterated the importance of the Arab Bank to Jordan's economy and society, adding that the GOJ, through its quasi-governmental entities such as the Social Security Corporation, had a large (20%) financial stake in the Arab Bank as well. Fox noted that for its part, FinCEN was aware that Arab Bank might have "mitigating or negating information" to answer some of the charges against its NYC branch, and that FinCEN is genuinely interested in evaluating the case on its merits and had by no means prejudged the outcome of its enforcement action. Bishara replied that Arab Bank did not expect favorable treatment; only due process. However, "we have not been treated fairly by the OCC."

17. (S/NF) Bishara said, however, that the OCC's action had been a "wake-up call" for the Arab Bank, and that it was planning to revamp its AML/CFT systems and controls accordingly. Bishara also felt that Arab Bank was trying to make changes at the NYC branch that would make a closure unnecessary. According to Bishara, the Arab Bank had closed its wire transfer room and was doing its best to outsource the wiring of money to another bank. The Arab Bank would wind up the individual accounts at the NYC branch and henceforth only handle corporate finance and credit, an area in which Arab Bank would be a perhaps irreplaceable asset to blue-chip U.S. companies wishing to do business in the Middle East. Though the shift in the NYC's business model would eliminate the vast majority of the AML/CFT risk, according to Bishara, Arab Bank would still invest in AML/CFT expertise to assure that its branch followed all current best practices. Arab Bank was, however, facing obstacles in moving forward constructively to address its problems. It had come to an agreement with the Bank of New York (BONY), but now that bank, frightened by press leaks on the OCC's action against Arab Bank, was threatening to cut off the Arab Bank unless they heard from either Treasury, the OCC or the Federal Reserve that one of these bodies had no objection to BONY's continuing to handle Arab Bank's money-wiring operations. Bishara asked specifically that Treasury send this signal to BONY, and Levey declined to give any assurances.

MINISTRY OF FINANCE

18. (C) Finance Minister Abu Hammour told the delegation that the GOJ is moving against terrorism through a variety of

financial means. He primarily mentioned the AML draft legislation, which he said had been debated in the previous day's Cabinet meeting and would be approved in the following week's meeting. (Abu Hammour later reiterated this statement at a joint press conference that he held with Levey following his meeting.) Abu Hammour also noted other ways in which the GOJ was moving against terrorism through its financial sector. He stated that he had used part of last year's increase in the general sales tax rate to provide free health insurance for the poor, alluding to the GOJ's fear that had they not done so, the Muslim Brotherhood's charity network would have filled the void. He also noted that at the same time that the GOJ had put stricter restrictions on the content of mosque sermons, it had doubled the salaries of imams to give them an incentive to comply. It was by measures like these, he said, that the "root causes of terrorism" could be fought. Levey agreed that such measures were useful against terrorism and good things even if terrorism was not considered; however, the AML law was a critical keystone both to US-Jordanian bilateral law enforcement cooperation and to King Abdullah's vision of Jordan as a regional center for trade and finance, and the law should be passed as soon as possible.

ROYAL COURT

19. (C) Royal Court Minister Rifai reiterated the concerns already expressed by other GOJ officials about the action against Arab Bank, including its importance to the Jordanian economy. Rifai expressed serious concern about possible repercussions to the Bank from the negative publicity emerging from an OCC action and the private lawsuits. Levey acknowledged that negative public attention was likely, but affirmed that he would "stick to the facts" in his handling and public discussion of this case and would not gratuitously "fan the flames." Rifai replied that the GOJ understood the need to take corrective action if there were real violations. Levey clarified, however, that he had no influence over either the OCC or the private plaintiffs in the civil suits against the Arab Bank, and that the GOJ and the Arab bank should brace themselves for a lot of negative publicity regarding Arab Bank over the next several months. Levey again stated that the passage of the AML draft law would be a strong step in the right direction for Jordan.

MINISTRY OF JUSTICE

10. (C) Justice Minister Bashir told the delegation that the AML bill could be sent to Parliament next week or the following week, but that given the long time required for the bill to undergo all required readings in both the upper and lower houses, he was not optimistic that it could be fully passed before the end of the session. Levey stressed the importance of the law, a "missing piece" in Jordan's otherwise modernizing legal and financial systems. Bashir reiterated the GOJ's solid commitment to the law's passage. He noted, however, that in his previous position (as Minister of Industry and Trade), he had opposed the AML law, and that he still had concerns about the Ministry of Justice's ability to enforce it. Both Fox and Charge assured Bashir that FinCEN and USAID (respectively) stood ready to offer any technical assistance that the Ministry might require in implementing the law. Bashir thanked them for this assurance, but said that any such assistance should come from new money - he didn't want his ministry's current aid budget diverted to AML/CFT assistance. Bashir also closely questioned the delegation on the USG experience with its AML laws, particularly flagging his concerns that other countries' governments might use the law to capture tax evaders, that the AML procedures might generally slow down the flow of commerce, and that the inherently political nature of much money laundering and terrorist finance would draw the Ministry of Justice, charged with enforcing the law, into political battles. Glaser noted that other Middle Eastern countries had had similar concerns prior to passing their AML laws, but that these had proved to be unfounded; he suggested that Bashir talk to his Egyptian counterpart about Egypt's experience. The delegation also implied that in terms of AML legal infrastructure, Jordan was superior only to Syria among Middle Eastern countries.

FOREIGN MINISTRY

11. (C) Levey congratulated Foreign Minister Mulqi on the positive messages that he had previously received on AML/CFT cooperation from other GOJ ministers and reiterated the importance of passage of the AML draft law. Mulqi replied that the Cabinet would approve the law prior to King Abdullah's visit to the United States. He cautioned,

however, that appearing to "shove the bill down Parliament's throat" would backfire. He proposed instead that the government submit the bill quietly and then propose it as a temporary law if Parliament did not pass it while it was in session. Hale thanked Mulqi for the Foreign Ministry's leadership in putting together an interministerial committee to facilitate judicial requests.

12. (C/NF) Mulqi also expressed his fears about the political repercussions of an OCC action against the Arab Bank, singling out two primary fears. First, such a step would at very least greatly increase the cost of sending remittances to the West Bank, increasing the discontent of people living primarily off of remittances at a critical time in the peace process. Second, the death of Hariri had further destabilized the bank's internal situation, leaving the future handling of Hariri's large (13%) stake in the bank uncertain. The conjunction of the two events might well create a crisis of confidence in the bank. Levey reassured Mulqi that he was sensitive to the importance and role of the Bank, but reiterated that he had no control over the actions of the OCC.

PRIME MINISTRY

13. (C) Levey once again underscored to Prime Minister Fayez the importance and urgency of passing the draft AML law. Fayez agreed, reiterating the full commitment of the GOJ to move for passage and implementation of the law at the earliest possible time; if not by the end of the current Parliamentary session, then certainly during the extraordinary session. Fayez also voiced many of the concerns mentioned earlier by other ministers about the potential effects of an OCC action against the Arab Bank, reiterating the GOJ's concerns about the publicity that such an action might be given. Levey warned that the coming months would be difficult for the Arab Bank, but that with cooperation between the USG and GOJ - and if the Arab bank followed through with promised improvements, our relationship could be strengthened by the experience. Fayez expressed his gratitude for the close relationship between the U.S. and Jordan and for all of the aid that Jordan had received from the USG.

14. (U) This cable was cleared by Under Secretary Levey.
HALE